



**Imbabazane Municipality
Annual financial statements
for the year ended 30 June 2013**

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

General Information

Mayoral committee

Mayor

Mrs P G Strydom

Deputy Mayor

Mr M C Mkhize

Speaker

Mr M A Mkhize

Councillors

25

Grading of local authority

2

Acting Chief Financial Officer

Mr S Dube

Acting Accounting Officer

Mr M R Mkhathshwa

Registered office

Ntabamhlophe

Sobabili Area

Estcourt

3310

Postal address

P.O.Box 750

Estcourt

3310

Telephone Number

036 353 0625/81/91/93

Fax number

036 353 6661

Auditor

Auditor General

Bankers

ABSA

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Index	Page
Accounting Officer's Responsibilities and Approval	3
Report of the Auditor General	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 11
Accounting Policies	12 - 23
Notes to the Annual Financial Statements	24 - 40
Appendices:	
Appendix A: Analysis of Property, Plant and Equipment	41
Appendix B: Actual versus Budget (Explanation of significant variances)	43
Appendix C: Grants register	45

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act 56 of 2003, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the council has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The Auditor General (SA) is responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 40, which have been prepared on the going concern basis, were approved by the council on 29 August 2013 and were signed on its behalf by:

Mr. M R Mkhathwa
Acting Municipal Manager



Report of the Auditor General

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	2012
Assets			
Current Assets			
Other receivables from exchange transactions	2	3,011,340	2,086,832
VAT receivable	3	190,461	950,588
Consumer debtors from non-exchange transactions	4	4,874,075	2,764,891
Financial assets - investments	5	-	10,000,000
Cash and cash equivalents	6	46,085,742	31,935,057
		54,161,618	47,737,368
Non-Current Assets			
Investment property	7	1,626,258	1,707,823
Property, plant and equipment	8	84,458,922	64,143,642
Intangible assets	9	132,955	78,017
		86,218,135	65,929,482
Total Assets		140,379,753	113,666,850
Liabilities			
Current Liabilities			
Finance lease obligation	10	208,889	159,248
Payables from non-exchange transactions	11	1,773,045	1,963,043
Payables from exchange transactions	12	205,590	14,860
Unspent conditional grants and receipts	13	11,722,348	19,214,960
Provisions	14	1,983,700	1,915,339
		15,893,572	23,267,450
Non-Current Liabilities			
Finance lease obligation	10	164,122	373,011
Total Liabilities		16,057,694	23,640,461
Net Assets		124,322,059	90,026,389
Accumulated surplus		124,322,059	90,026,389

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012
Revenue			
Revenue from exchange transactions			
Licences and permits		600	702
Rental of facilities		110,724	50,918
Other income	15	741,836	284,923
Interest received - investment	16	1,857,643	989,813
Gains on disposal of assets		30,500	208,500
Total revenue from exchange transactions		2,741,303	1,534,856
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	17	6,316,330	4,791,958
Transfer revenue			
Government grants & subsidies	18	89,614,611	83,182,307
Traffic fines		5,009	1,711
Total revenue from non-exchange transactions		95,935,950	87,975,976
Total revenue	19	98,677,253	89,510,832
Expenditure			
Employee related costs	20	(18,713,119)	(13,692,025)
Remuneration of councillors	21	(5,997,314)	(5,562,927)
Depreciation and amortisation	22	(4,431,473)	(4,890,842)
Impairment loss	23	(301,359)	-
Finance costs	24	(87,338)	(37,322)
Repairs and maintenance		(3,588,831)	(2,646,847)
General Expenses	25	(31,262,149)	(30,686,997)
Total expenditure		(64,381,583)	(57,516,960)
Operating surplus		34,295,670	31,993,872
Surplus for the year		34,295,670	31,993,872

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	58,703,156	58,703,156
Adjustments		
Balance at 01 July 2011 as restated	58,703,156	58,703,156
Prior year adjustments	(670,639)	(670,639)
Net income (losses) recognised directly in net assets	(670,639)	(670,639)
Surplus for the year	31,993,872	31,993,872
Total recognised income and expenses for the year	31,323,233	31,323,233
Total changes	31,323,233	31,323,233
Balance at 01 July 2012	90,026,389	90,026,389
Surplus for the year	34,295,670	34,295,670
Total changes	34,295,670	34,295,670
Balance at 30 June 2013	124,322,059	124,322,059

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Cash Flow Statement

Figures in Rand	Note(s)	2013	2012
Cash flows from operating activities			
Receipts			
Property Rates		4,207,146	3,107,321
Grants		82,122,000	83,182,307
Interest income		1,857,643	989,813
Other receipts		2,194,479	261,831
		<u>90,381,268</u>	<u>87,541,272</u>
Payments			
Employee costs		(24,710,433)	(19,254,952)
Suppliers and other payments		(36,493,073)	(33,463,947)
Finance costs		(82,108)	(28,507)
		<u>(61,285,614)</u>	<u>(52,747,406)</u>
Net cash flows from operating activities	27	<u>29,095,654</u>	<u>34,793,866</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(24,729,374)	(18,396,524)
Proceeds from sale of property, plant and equipment	8	30,500	-
Purchase of intangible assets	9	(86,847)	(82,112)
Decrease in financial assets - investments		10,000,000	5,000,000
Net cash flows from investing activities		<u>(14,785,721)</u>	<u>(13,478,636)</u>
Cash flows from financing activities			
(Decrease)/increase in finance lease obligation		(159,248)	532,259
Net increase/(decrease) in cash and cash equivalents		14,150,685	21,847,489
Cash and cash equivalents at the beginning of the year		31,935,057	10,087,568
Cash and cash equivalents at the end of the year	6	<u>46,085,742</u>	<u>31,935,057</u>

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Appendix B
--	--------------------	-------------	--------------	--	---	-------------------------

Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Other revenue	295,300	190,000	485,300	853,160	367,860	B1
Investment revenue	815,000	200,000	1,015,000	1,857,643	842,643	B2
Total revenue from exchange transactions	1,110,300	390,000	1,500,300	2,710,803	1,210,503	

Revenue from non-exchange transactions

Property rates	6,645,000	(49,275)	6,595,725	6,316,330	(279,395)	B3
Government grants and subsidies	69,201,000	(1,436,000)	67,765,000	89,614,611	21,849,611	B4

Transfer revenue

Fines	-	-	-	5,009	5,009	B1
-------	---	---	---	-------	-------	----

Total revenue from non-exchange transactions	75,846,000	(1,485,275)	74,360,725	95,935,950	21,575,225	
---	-------------------	--------------------	-------------------	-------------------	-------------------	--

Total revenue	76,956,300	(1,095,275)	75,861,025	98,646,753	22,785,728	
----------------------	-------------------	--------------------	-------------------	-------------------	-------------------	--

Expenditure

Personnel	(19,832,813)	(1,007,926)	(20,840,739)	(18,713,119)	2,127,620	B5
Remuneration of councillors	(6,168,294)	-	(6,168,294)	(5,997,314)	170,980	B6
Depreciation and amortisation	(7,000,000)	500,000	(6,500,000)	(4,431,473)	2,068,527	B7
Impairment loss	-	-	-	(301,359)	(301,359)	B7
Finance costs	-	(46,000)	(46,000)	(87,338)	(41,338)	B8
Repairs and maintenance	-	(4,120,000)	(4,120,000)	(3,588,831)	531,169	B9
Contracted services	(2,280,000)	(350,000)	(2,630,000)	(2,098,710)	531,290	B10
General expenses	(28,024,787)	41,680	(27,983,107)	(26,081,645)	1,901,462	B11
Consultant fees	(500,000)	(1,000,000)	(1,500,000)	(1,238,805)	261,195	B12
Audit fees	(1,400,000)	(300,000)	(1,700,000)	(1,842,989)	(142,989)	B13

Total expenditure	(65,205,894)	(6,282,246)	(71,488,140)	(64,381,583)	7,106,557	
--------------------------	---------------------	--------------------	---------------------	---------------------	------------------	--

Operating surplus	(65,205,894)	(6,282,246)	(71,488,140)	34,265,170	105,753,310	
--------------------------	---------------------	--------------------	---------------------	-------------------	--------------------	--

Gain on disposal of assets	-	-	-	30,500	30,500	B14
----------------------------	---	---	---	--------	--------	-----

Surplus/(Deficit)	(65,205,894)	(6,282,246)	(71,488,140)	34,295,670	105,783,810	
--------------------------	---------------------	--------------------	---------------------	-------------------	--------------------	--

Transfers recognised - capital	-	20,963,000	20,963,000	-	(20,963,000)	B15
--------------------------------	---	------------	------------	---	--------------	-----

Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(65,205,894)	(27,245,246)	(92,451,140)	34,295,670	126,746,810	
--	---------------------	---------------------	---------------------	-------------------	--------------------	--

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Appendix B
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Other receivables	3,306,924	-	3,306,924	3,011,340	(295,584)	B16
VAT receivable	-	-	-	190,461	190,461	B17
Consumer debtors	2,184,658	(1,820,000)	364,658	4,874,075	4,509,417	B18
Financial assets - Investments	15,000,000	10,000,000	25,000,000	-	(25,000,000)	B19
Cash and cash equivalents	12,249,024	(1,027,394)	11,221,630	46,085,742	34,864,112	B20
	32,740,606	7,152,606	39,893,212	54,161,618	14,268,406	
Non-Current Assets						
Investment property	1,627,951	-	1,627,951	1,626,258	(1,693)	B21
Property, plant and equipment	85,000,725	557,847	85,558,572	84,458,922	(1,099,650)	B22
Intangible assets	50,184	-	50,184	132,955	82,771	B23
	86,678,860	557,847	87,236,707	86,218,135	(1,018,572)	
Total Assets	119,419,466	7,710,453	127,129,919	140,379,753	13,249,834	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	-	208,889	208,889	B24
Payables from non-exchange transactions	2,608,767	-	2,608,767	1,773,045	(835,722)	B25
Payables from exchange transactions	-	-	-	205,590	205,590	B25
Unspent conditional grants and receipts	5,000,000	10,000,000	15,000,000	11,722,348	(3,277,652)	B26
Provisions	2,301,525	-	2,301,525	1,983,700	(317,825)	B27
	9,910,292	10,000,000	19,910,292	15,893,572	(4,016,720)	
Non-Current Liabilities						
Finance lease obligation	-	-	-	164,122	164,122	B26
Total Liabilities	9,910,292	10,000,000	19,910,292	16,057,694	(3,852,598)	
Net Assets	109,509,174	(2,289,547)	107,219,627	124,322,059	17,102,432	
Net Assets						
Net Assets Attributable to the municipality						
Reserves						
Accumulated surplus	109,509,174	(2,289,529)	107,219,645	124,322,059	17,102,414	B28
Total Net Assets	109,509,174	(2,289,529)	107,219,645	124,322,059	17,102,414	

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Appendix B
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Ratepayers and other	5,966,636	(49,275)	5,917,361	4,207,146	(1,710,215)	
Government grant - operating	69,201,000	(1,436,000)	67,765,000	82,122,000	14,357,000	
Government grant - capital transfer	20,963,000	-	20,963,000	-	(20,963,000)	
Interest income	815,000	200,000	1,015,000	1,857,643	842,643	
Other receipts	-	-	-	2,194,479	2,194,479	
	96,945,636	(1,285,275)	95,660,361	90,381,268	(5,279,093)	
Payments						
Employee costs	(26,001,107)	(134,043)	(26,135,150)	(24,710,433)	1,424,717	
Suppliers and other payments	(38,852,991)	-	(38,852,991)	(36,493,073)	2,359,918	
Finance costs	-	-	-	(82,108)	(82,108)	
	(64,854,098)	(134,043)	(64,988,141)	(61,285,614)	3,702,527	
Net cash flows from operating activities	32,091,538	(1,419,318)	30,672,220	29,095,654	(1,576,566)	B29
Cash flows from investing activities						
Purchase of property, plant and equipment	(41,468,047)	13,496,400	(27,971,647)	(24,729,374)	3,242,273	
Proceeds from sale of property, plant and equipment	-	150,000	150,000	30,500	(119,500)	
Purchase of intangible assets	-	-	-	(86,847)	(86,847)	
(Increase)/decrease in investments	-	(25,000,000)	(25,000,000)	10,000,000	35,000,000	
Net cash flows from investing activities	(41,468,047)	(11,353,600)	(52,821,647)	(14,785,721)	38,035,926	B30
Cash flows from financing activities						
Decrease in finance lease obligation	-	-	-	(159,248)	(159,248)	B31
Net (Decrease)/increase in cash and cash equivalents	(9,376,509)	(12,772,918)	(22,149,427)	14,150,685	36,300,112	
Cash and cash equivalents at the beginning of the year	21,625,533	10,309,524	31,935,057	31,935,057	-	
Cash and cash equivalents at the end of the year	12,249,024	(2,463,394)	9,785,630	46,085,742	36,300,112	

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, in accordance with section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand, which is the functional currency of the municipality, and are rounded to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

In the absence of an issued and effective standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10, and 11 of GRAP 3 as read with Directive 5.

These accounting policies are consistent with the previous period, unless specified otherwise.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables and other receivables

The municipality assesses its trade receivables and other receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset. Consumer debtors are expected to be realised within 12 months after the reporting date.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

1.2 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard	Interpretation:	Effective date:
GRAP 21	Impairment of non-cash-generating assets	01 April 2012
GRAP 23	Revenue from non-exchange transactions	01 April 2012
GRAP 24	Presentation of budget information in the financial statements	01 April 2012
GRAP 26	Impairment of cash-generating assets	01 April 2012
GRAP 103	Heritage assets	01 April 2012
GRAP 104	Financial instruments	01 April 2012

The adoption of the above GRAP standards did not have any significant impact on the operations of the municipality.

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.3 Standards, amendments to standards and Interpretations issued but not yet effective

The municipality will apply all new standards issued by the date stipulated by the Minister of Finance. At year end, the municipality was still determining the extent to which the new standards will impact the accounting of the municipality. The municipality has elected to use these standards to inform the accounting policies that follow.

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18	Segment reporting
GRAP 20	Related Party disclosures
GRAP 25	Employee benefits
GRAP 105	Transfer of functions between entities under common control
GRAP 106	Transfer of functions between entities not under common control
GRAP 107	Mergers

The municipality has not applied the above accounting statements and interpretations that have been issued but are not yet effective for the current financial year but have applied their principles in forming the related accounting policies.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - buildings	30 years

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

Subsequent to initial recognition, property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

The cost of items property, plant and equipment under construction as of the reporting date is recognised as an asset if:
(a) it is probable that future economic benefits or service potential associated with the item(s) will flow to the municipality, and
(b) the cost or fair value of the item(s) can be measured reliably.

Assets under construction consist of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. The expenditure comprises direct labour, materials and overheads, if appropriate.

When assets under construction are completed and certificates of completion issued, they are transferred to the appropriate asset class.

Assets under construction are not depreciated as they are not in a condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Infrastructure	
• Roads	10 years
Community	
• Outdoor sports facilities	20 years
• Community halls	30 years
• Public conveniences	30 years
Other property, plant and equipment	
• Furniture and fixtures	3 - 10 years
• Motor vehicles	5 years
• Office equipment	5 years
• IT equipment	3 years
• Emergency equipment	5 - 15 years
• Other assets	2 - 30 years

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.5 Property, plant and equipment (continued)

The residual value, the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 years

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.6 Intangible assets (continued)

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.7 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset or a financial liability in accordance with the substance of the contractual arrangement.

Financial instruments are initially recognised at fair value.

Transaction costs are included in the initial measurement if the instrument.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Loans to employees

These financial assets are classified as loans and receivables.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.7 Financial Instruments (continued)

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

The municipality classifies cash and cash equivalents as loans and receivables. Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash and cash equivalents are initially recorded at fair value and subsequently recorded at amortised cost as a loan receivable.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.7 Financial instruments (continued)

Impairment of financial assets

The municipality assesses at each reporting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment.

1.9 Impairment of cash-generating assets and non-cash generating assets

The municipality assesses at each reporting date whether there is an indication that an asset may be impaired. Where the carrying amount of an asset exceeds its recoverable amount (or recoverable service amount in the case of non-cash-generating assets), the asset is considered impaired and is written down to its recoverable amount (or recoverable service amount). An asset's recoverable amount (or recoverable service amount) is the higher of the fair value less costs to sell, and the value-in-use of the asset).

An asset's recoverable amount (or recoverable service amount) is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use. This recoverable amount (or recoverable service amount) is determined for individual assets, unless those individual assets are part of a larger cash generating unit, in which case the recoverable amount (or recoverable service amount) is determined for the whole cash generating unit.

An asset is part of a cash generating unit where that asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

In determining the recoverable amount (or recoverable service amount) of an asset the municipality evaluates the assets to determine whether the assets are cash generating assets or non-cash generating assets.

For cash generating assets the value in use is determined as a function of the discounted future cash flows from the asset.

Accounting Policies

1.9 Impairment of cash-generating assets and non-cash generating assets (continued)

Where the asset is a non-cash generating asset the value in use is determined through one of the following approaches:

- Depreciated replacement cost approach – The current replacement cost of the asset is used as the basis for this value. This current replacement cost is depreciated for a period equal to the period that the asset has been in use so that the final depreciated replacement cost is representative of the age of the asset.
- Restoration cost approach - Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment.
- Service units approach - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state.

The decision as to which approach to use is dependent on the nature of the identified impairment.

In assessing value-in-use for cash-generating assets, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, other fair value indicators are used.

Impairment losses of continuing operations are recognised in the statement of financial performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the municipality makes an estimate of the assets or cash-generating unit's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of financial performance unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

1.10 Employee benefits

Short-term employee benefits

Short term employee benefits encompass all those benefits that become payable in the short term, i.e. within a financial year or within 12 months after the financial year. Therefore, short term employee benefits include remuneration, compensated absences and bonuses.

Short term employee benefits are recognised in the statement of financial performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

Retirement benefits

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined contribution plans

The municipality contributes to the KZN Municipal Pension Fund, which is classified as a defined contribution plan. Contributions made towards the fund are recognised as an expense in the statement of financial performance in the period that such contributions becomes payable. This contribution expense is measured at the undiscounted amount of the contribution paid or payable to the fund. A liability is recognised to the extent that any of the contributions have not yet been paid. Conversely an asset is recognised to the extent that any contributions have been paid in advance.

Accounting Policies

1.10 Employee benefits (continued)

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 29.

1.12 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, volume rebates and value-added taxes (VAT).

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Contract revenue comprises:

- the initial amount of revenue agreed in the contract; and
- variations in contract work, claims and incentive payments:
 - to the extent that it is probable that they will result in revenue; and
 - they are capable of being reliably measured.

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.12 Revenue from exchange transactions (continued)

Investment revenue

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the municipality receives value from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

1.15 Commitments

Commitments are not recognised. Commitments are disclosed in the notes to the annual financial statement. A commitment is disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.17 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.21 Housing subsidies

The municipality provides post-retirement housing subsidies for qualifying staff members. The payment of these subsidies is reflected as expenditure in the statement of financial performance.

1.22 Gratuities

The municipality provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is paid.

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.23 Budget Information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period has been included in the annual financial statements.

1.24 Related parties

The municipality has processes and controls in place to aid in the identification of related parties. A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Where transactions occurred between the municipality any one or more related parties, and those transactions were not within:

- normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances; and
- terms and conditions within the normal operating parameters established by the municipality's legal mandate; further details about those transactions are disclosed in the notes to the financial statements.

1.25 Going concern assumption

The financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
-----------------	------	------

2. Other receivables from exchange transactions

Other debtors	3,011,340	2,086,832
---------------	-----------	-----------

Sundry debtors

Sundry debtors is primarily made-up of irregular expenditure which is recoverable from certain councillors, refer to note 31.

Other debtors

A balance of R1 940 662, is the amount due from Uthukela District Municipality. Historically, the municipality's equitable share used to be paid to the District who in turn paid over the amount due to the Imbabazane Municipality. The balance is an outstanding amount which the Uthukela District Municipality failed to pay over to Imbabazane Municipality.

3. VAT receivable

VAT receivable	190,461	950,588
----------------	---------	---------

4. Consumer debtors from non-exchange transactions

Property rates	4,874,075	2,764,891
----------------	-----------	-----------

Consumer debtors age analysis - Property rates

Current (0 -30 days)	190,542	154,860
31 - 60 days	186,149	142,642
61 - 90 days	178,167	132,794
91 - 120 days	177,579	138,545
121 - 365 days	4,141,638	2,196,050
	4,874,075	2,764,891

5. Investments

The investment account comprises of short-term deposits with major South African banks.

Opening balance	10,000,000	15,000,000
Movement	(10,000,000)	(5,000,000)
Closing balance	-	10,000,000

At year end, the short-term deposits were transferred to the primary current account held with ABSA, account number 4056119170.

Details of investment accounts utilised during the year:

Bank	Account number	Type of account
ABSA	2070588567	Housing account
Nedbank	037165014640	Investment account
Investec	1100436242450	Fixed deposit

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
-----------------	------	------

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,000	1,000
Bank balances	46,084,742	31,934,057
	46,085,742	31,935,057

The municipality had the following bank accounts

Account number / description

ABSA Bank Limited Newcastle current account - Account number 4056119170	40,902,109	25,459,352
ABSA Bank Limited Newcastle current account - Account number 4060975423	5,182,633	6,474,705
	46,084,742	31,934,057

7. Investment property

	2013			2012		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	2,401,490	(775,232)	1,626,258	2,401,490	(693,667)	1,707,823

Reconciliation of Investment property - 2013

	Opening Balance	Depreciation	Closing Balance
Investment property	1,707,823	(81,565)	1,626,258

Reconciliation of Investment property - 2012

	Opening Balance	Depreciation	Closing Balance
Investment property	1,787,873	(80,050)	1,707,823

A register as required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The most recent valuation of the investment property was performed by MillsFitchet Independent Valuers. The fixed date of valuation and date of compilation as per the valuation report are 02 July 2012 and 19 April 2013 respectively. The market value as per the valuation date 02 July 2012 was R3 500 000.

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Officer's Report

8. Property, plant and equipment

	2013			2012		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	9,486,133	(2,337,988)	7,148,145	9,486,133	(1,926,271)	7,559,862
Plant and machinery	6,369,422	(2,405,793)	3,963,629	6,333,570	(1,865,982)	4,467,588
Furniture and fixtures	1,543,130	(978,444)	564,686	1,341,413	(881,982)	459,431
Motor vehicles	2,835,978	(1,576,117)	1,259,861	2,835,978	(1,858,133)	977,845
Office equipment	2,471,062	(1,544,318)	926,744	2,046,631	(1,622,722)	423,909
Infrastructure	41,275,033	(11,873,143)	29,401,890	31,881,188	(8,309,187)	23,572,001
Community	9,691,117	(2,166,738)	7,524,379	9,691,117	(1,842,076)	7,849,041
Capital work in progress	33,065,377	-	33,065,377	18,314,347	-	18,314,347
Security assets	127,761	(13,444)	114,317	-	-	-
Finance leases	1,005,812	(515,918)	489,894	1,005,812	(486,194)	519,618
Total	107,870,825	(23,411,903)	84,458,922	82,936,189	(18,792,547)	64,143,642

Reconciliation of property, plant and equipment - 2013

	Opening Balance	Additions	Transfers	Depreciation	Impairment loss	Closing Balance
Buildings	7,559,862	-	-	(339,144)	(72,573)	7,148,145
Plant and machinery	4,467,588	35,852	-	(528,243)	(11,568)	3,963,629
Furniture and fixtures	459,431	201,717	-	(96,115)	(347)	564,686
Motor vehicles	977,845	-	-	433,144	(151,128)	1,259,861
Office equipment	423,909	424,431	-	144,147	(65,743)	926,744
Infrastructure	23,572,001	-	9,393,845	(3,563,956)	-	29,401,890
Community	7,849,041	-	-	(324,662)	-	7,524,379
Capital work in progress	18,314,347	24,144,875	(9,393,845)	-	-	33,065,377
Security assets	-	127,761	-	(13,444)	-	114,317
Finance leases	519,618	-	-	(29,724)	-	489,894
	64,143,642	24,934,636	-	(4,317,997)	(301,359)	84,458,922

Reconciliation of property, plant and equipment - 2012

	Opening Balance	Additions	Depreciation	Closing Balance
Buildings	7,632,853	236,000	(308,991)	7,559,862
Plant and machinery	3,947,660	1,002,700	(482,772)	4,467,588
Furniture and fixtures	523,738	84,650	(148,957)	459,431
Motor vehicles	719,997	743,341	(485,493)	977,845
Office equipment	488,576	165,860	(230,527)	423,909
Infrastructure	18,208,205	8,043,765	(2,679,969)	23,572,001
Community	8,172,078	-	(323,037)	7,849,041
Capital work in progress	10,773,952	7,540,395	-	18,314,347
Finance leases	72,694	579,813	(132,889)	519,618
	50,539,753	18,396,524	(4,792,635)	64,143,642

Re-assessment of useful lives

During the current year of assessment, a consultant was appointed to prepare a GRAP 17 compliant asset register for the Municipality. Assets were inspected to determine their physical state as well as their service potential in future years. This process resulted in a reassessment of the useful lives of assets which had been fully depreciated but remained in use, and the impairment of assets which were damaged. Assets which were fully depreciated were assigned between 1 and 3 additional years of life, depending on when they became fully depreciated and the expected future use of the assets. The required adjustments have been processed in the current year.

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Officer's Report

8. Property, plant and equipment (continued)

A register as required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

9. Intangible assets

	2013			2012		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	249,233	(116,278)	132,955	162,386	(84,369)	78,017

Reconciliation of Intangible assets - 2013

	Opening Balance	Additions	Amortisation	Closing Balance
Computer software	78,017	86,847	(31,909)	132,955

Reconciliation of Intangible assets - 2012

	Opening Balance	Additions	Amortisation	Closing Balance
Computer software	14,048	82,112	(18,143)	78,017

A register as required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

10. Finance lease obligation

Minimum lease payments due

- within one year	247,514	225,122
- in second to fifth year inclusive	171,640	419,154
	419,154	644,276
less: future finance charges	(46,143)	(112,017)
Present value of minimum lease payments	373,011	532,259

Present value of minimum lease payments due

- within one year	208,889	159,248
- in second to fifth year inclusive	164,122	373,011
	373,011	532,259

Non-current liabilities
Current liabilities

164,122	373,011
208,889	159,248
373,011	532,259

It is municipality policy to lease certain property, plant and equipment under finance leases.

The average lease term is 3 years.

Interest rates are fixed at the contract date. All leases escalate at 10% p.a and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer to note 8.

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
11. Payables from non-exchange transactions		
Unallocated deposits	1,773,045	1,773,043
Estate late suspense liability	-	190,000
	1,773,045	1,963,043
Unallocated deposits relate to amounts received by the municipality of which its origin is still being investigated.		
12. Payables from exchange transactions		
Trade payables	46,041	14,860
Accrued internal audit fees	159,549	-
	205,590	14,860
Trade and other payables are normally settled on 30 day terms.		
13. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Financial management grant (FMG)	1,235,776	564,528
Housing projects grant	6,931,465	8,840,949
Municipal infrastructure grant (MIG)	3,335,957	9,675,916
Municipal systems improvement grant (MSIG)	215,562	133,567
Sports and recreation grant	3,588	-
	11,722,348	19,214,960
Movement during the year		
Balance unspent at the beginning of the year	19,214,960	20,393,845
Current year receipts	23,743,000	26,200,340
Conditions met transferred to revenue	(31,235,612)	(27,379,225)
	11,722,348	19,214,960
Financial management grant		
Balance unspent at the beginning of the year	564,528	376,480
Current year receipts	1,500,000	1,500,000
Conditions met transferred to revenue	(828,752)	(1,311,952)
	1,235,776	564,528
Municipal infrastructure grant		
Balance unspent at the beginning of the year	9,675,916	9,574,539
Current year receipts	20,963,000	17,382,377
Conditions met transferred to revenue	(21,096,959)	(17,281,000)
Unspent portion set-off against equitable share	(6,206,000)	-
	3,335,957	9,675,916
Municipal systems improvement grant		
Balance unspent at the beginning of the year	133,567	136,857
Current year receipts	800,000	790,000
Conditions met transferred to revenue	(718,005)	(793,290)
	215,562	133,567

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand

2013

2012

13. Unspent conditional grants and receipts (continued)

Housing projects grant

Balance unspent at the beginning of the year	8,840,949	677,007
Current year receipts	-	8,163,942
Conditions met transferred to revenue	(1,909,484)	-
	6,931,465	8,840,949

Sports and recreation grant

Balance unspent at the beginning of the year	-	-
Current year receipts	150,000	150,000
Conditions met transferred to revenue	(146,412)	(150,000)
	3,588	-

Library grant

Balance unspent at the beginning of the year	-	-
Current year receipts	330,000	329,340
Conditions met transferred to revenue	(330,000)	(329,340)
	-	-

Municipal systems improvement grant (MSIG)

This grant is used for infrastructure, capacity building and restructuring. The capacity building and restructuring grants were set up to assist the municipality in developing their planning, budgeting, financial management and technical skills.

Finance management grant (FMG)

The main objective of this grant is to rollout financial management reforms embodied in the MFMA through building capacity in financial management. Its primary purpose is to assist in building strong financial management skills.

Municipal infrastructure grant (MIG)

This grant is used for capital infrastructure development.

Housing grant

The main objective of the grant is to build houses for disadvantaged members of the community.

Sports and recreation grant

The objective of the grant is to maintain sports facilities and encourage participation in sporting activities in the community.

Library grant

The objective of the grant is to maintain and operate the local library for the benefit of the community.

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
-----------------	------	------

14. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Movement	Closing Balance
Leave pay provision	1,154,089	47,725	1,201,814
Bonus provision	761,250	20,636	781,886
	1,915,339	68,361	1,983,700

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Closing Balance
Leave Provision	1,081,784	360,266	(287,961)	1,154,089
Bonus provision	735,345	25,905	-	761,250
	1,817,129	386,171	(287,961)	1,915,339

Leave pay provision

The leave pay provision is accrued at the Basic Conditions of Employment Act rate and is accumulated to a maximum of 48 days per employee. Leave pay provision represents the number of leave days due to individual staff members at year end. The amount of the provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Bonus provision

Bonuses are paid as a 13th cheque to employees that qualify. Provision for bonus is calculated based on the qualifying employees latest basic salary.

15. Other revenue

Other income	741,836	284,923
--------------	---------	---------

The amount included in other revenue is as follows:

Tender document fees	36,226	40,450
Copies	3,447	8,473
Other	702,163	-
Donation EX UDM	-	236,000
	741,836	284,923

Other revenue of R702 163, comprises of VAT refunds that were previously disallowed but amended in the current year, as well as income recognised as a result of assets that were donated to the municipality by the Department of Arts and Culture (refer to note 8).

16. Interest revenue

Interest revenue

Investec and Nedbank short-term investment	1,165,862	989,813
ABSA current account - 4056119170	233,129	-
ABSA and Nedbank housing accounts	458,652	-
	1,857,643	989,813

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
-----------------	------	------

17. Property rates

Rates received

State	5,889,304	4,380,509
Small holdings and farms	328,501	323,211
Commercial	98,525	88,238
	6,316,330	4,791,958

The municipality introduced the levying of Property Rates effective 1 July 2009.

Valuations

Commercial	23,505,000	23,505,000
State	389,027,162	389,027,162
Small holdings and farms	193,430,000	193,430,000
	605,962,162	605,962,162

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Different rate randage is charged for each different category of rate payers. No additional rebates were granted to any categories of rate payers except for the compulsory phasing-in of certain rates as contained in the Council's approved Property Rating Policy.

Rates are levied on an monthly basis in twelve (12) equal instalments payable on the 7th of the subsequent month. No interest and collection charges are levied on outstanding rates accounts, as agreed with the municipality as part of the phased-in process.

18. Government grants and subsidies

Operating grants

Equitable share	64,585,000	57,268,100
Municipal systems improvement grant (MSIG)	718,005	793,291
Finance management grant	828,752	1,311,953
Library grant	330,000	329,340
Sports and recreation grant	146,412	150,000
	66,608,169	59,852,684

Capital grants

Municipal infrastructure grant (MIG)	21,096,959	17,281,000
National electrification grant	-	6,048,623
Housing projects grant	1,909,484	-
	23,006,443	23,329,623
	89,614,612	83,182,307

Changes in level of government grants

Equitable share

The Constitution provides that each sphere of government - national, provincial and local - is entitled to an equitable share of revenue raised nationally to enable it to provide basic services and perform the functions allocated to it. The equitable division of revenue takes into account the functions assigned to each sphere and the capacity of each government to pay for these functions through own receipts and revenues. The equitable share is an unconditional allocation.

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
19. Revenue		
Licences and permits	600	702
Rental of facilities	110,724	50,918
Other income	741,836	284,923
Property rates	6,316,330	4,791,958
Government grants and subsidies	89,614,611	83,182,307
Fines	5,009	1,711
Interest revenue	1,857,643	989,813
Gains on disposal of assets	30,500	208,500
	98,677,253	89,510,832
The amount included in revenue arising from exchanges of goods or services are as follows:		
Licences and permits	600	702
Rental of facilities	110,724	50,918
Other income	741,836	284,923
	853,160	336,543
The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	6,316,330	4,791,958
Government grants and subsidies	89,614,611	83,182,307
Fines	5,009	1,711
	95,935,950	87,975,976
20. Employee related costs		
Basic	14,014,110	9,746,164
Bonus	854,236	635,973
Medical aid and pension fund contributions	1,737,273	1,318,275
Unemployment insurance fund (UIF)	106,103	55,111
Skills development levy (SDL)	234,694	173,446
Travel, motor car, accommodation, subsistence and other allowances	1,518,877	1,079,146
Overtime	7,782	-
Housing benefits and allowances	117,108	611,605
Leave pay	122,936	72,305
	18,713,119	13,692,025
Remuneration of Municipal Manager		
Annual Remuneration	549,120	586,327
Car Allowance	115,972	170,856
Contributions to UIF, Medical and Pension Funds	1,296	16,526
	666,388	773,709
Remuneration of Chief Finance Officer		
Annual Remuneration	448,164	54,564
Car Allowance	46,146	-
Contributions to UIF, Medical and Pension Funds	9,438	-
	503,748	54,564

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
-----------------	------	------

20. Employee related costs (continued)

Remuneration of Community Services Manager

Annual Remuneration	536,000	265,136
Car Allowance	144,000	63,000
Contributions to UIF, Medical and Pension Funds	1,545	1,942
	681,545	330,078

Remuneration of Corporate and Human Resources (Corporate Services) Manager

Annual Remuneration	317,684	501,166
Car Allowance	75,320	113,904
Contributions to UIF, Medical and Pension Funds	11,307	7,455
	404,311	622,525

Remuneration of Technical Services Manager

Annual Remuneration	311,667	-
Car Allowance	85,000	-
Contributions to UIF, Medical and Pension Funds	873	-
	397,540	-

21. Remuneration of councillors

Mayor	842,194	581,305
Deputy Mayor	475,662	482,832
Mayoral Committee Members	762,463	695,443
Speaker	328,231	261,206
Councillors	3,588,764	3,542,141
	5,997,314	5,562,927

In-kind benefits

The Mayor and Deputy Mayor are employed on a full-time basis by the Municipality. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor makes use of a Council owned vehicle for official duties.

The Mayor and the Deputy Mayor each have four full-time bodyguards and the Speaker has two full-time bodyguards at the cost of the Council.

The Mayor and the Speaker are also provided with static security at their residence at the cost of the Council.

22. Depreciation and amortisation

Property, plant and equipment	4,317,997	4,792,639
Investment property	81,565	80,050
Intangible assets	31,909	18,153
	4,431,471	4,890,842

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
23. Impairment of assets		
Buildings	72,573	-
Motor vehicles	151,128	-
Plant and equipment	11,568	-
Furniture and fixtures	347	-
Office equipment	65,743	-
	301,359	-
24. Finance costs		
Finance leases	82,108	28,507
Other interest paid	5,230	8,815
	87,338	37,322

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
25. General expenses		
Advertising	856,962	798,776
Annual report	196,000	-
Asset management	15,298	139,850
Auditor's remuneration	1,842,989	1,279,733
Bank charges	38,590	32,722
Cleaning	432,424	299,542
Community development and training	434,072	358,165
Community projects	2,664,810	1,951,558
Conferences and seminars	7,127	1,000
Consulting and professional fees	1,660,620	475,467
Disaster funds	400,544	695,874
Electricity	295,766	329,221
Electrification expenditure	-	5,493,963
Entertainment	300,368	305,632
Financial assistance	341,945	819,660
Financial management grant expenditure	779,202	1,120,873
Fines and penalties	67,237	-
Fire arms and ammunition	9,104	7,630
Free basic electricity	2,724,806	2,156,500
HIV/AIDS awareness	447,733	148,025
Heritage programme	257,928	251,911
IT expenses	470,089	244,048
Insurance	340,487	268,283
Integrated development plan (IDP)	147,600	198,601
Job creation	400,000	963,266
Kwanaloga games	881,775	399,218
LED implementation	199,250	109,380
Lease rentals on operating lease	110,737	232,692
Library	329,567	198,868
MIG PMU expenditure	178,320	178,320
Magazines, books and periodicals	-	9,000
Mayoral flagship projects	397,099	349,802
Motor vehicle expenses	785,382	634,420
Municipal systems improvement grant expenditure (MSIG)	633,591	775,576
Operational Grant Expenditure	3,918,457	2,739,207
Pauper burial	288,000	650,480
Placement fees	22,235	-
Postage and courier	5,989	5,826
Printing and stationery	410,781	500,056
Protective clothing	31,566	36,801
Public participation	1,340,470	499,842
School support	427,022	460,674
Security (Guarding of municipal property)	1,698,166	1,289,563
Sports and recreation grant	137,558	-
Study grant	196,326	158,691
Subscriptions and membership fees	-	21,200
Telephone and fax	1,055,345	291,298
Tourism development	180,963	299,260
Training	157,770	203,493
Travel - local	742,685	752,932
Valuation roll	957,969	163,796
Youth and gender development	1,043,425	1,386,302
	31,262,149	30,686,997

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
26. Auditor's remuneration		
External audit fees	1,112,887	740,624
Internal audit fees	524,102	459,109
Audit committee fees	206,000	80,000
	1,842,989	1,279,733

27. Cash generated from operations

Surplus	34,295,670	31,993,872
Adjustments for:		
Depreciation and amortisation	4,431,473	4,890,842
Gain on sale of property, plant and equipment	(30,500)	-
Impairment deficit	301,359	-
Increase in provisions	68,361	98,210
Donations in-kind	(205,262)	-
Adjustments for GRAP	-	(670,639)
Other non-cash items	-	(1,788)
Changes in working capital:		
(Increase)/decrease in other receivables	(924,508)	25,565
Decrease in consumer debtors	(2,109,184)	(1,684,637)
(Decrease)/increase in payables from exchange transaction	(190,000)	274,480
Decrease in VAT refund receivable	760,127	1,060,018
Decrease in unspent conditional grants and receipts	(7,492,612)	(1,078,887)
Increase/(Decrease) in payables from exchange transaction	190,730	(113,170)
	29,095,654	34,793,866

28. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	318,002,954	41,468,000
---------------------------------	-------------	------------

This committed expenditure relates to plant and equipment and will be financed by unspent infrastructure grants, and internally generated funds.

The following capital projects (included in the above capital commitment of R318 002 954) of which tenders were awarded, contracts signed and approved by the Council have been put on hold and are under review by the Administrator appointed by the Department of Co-operative Governance and Traditional Affairs (COGTA):

Housing projects

	Value of project
Ngonyameni - Lingela Projects	77,390,760
Shayamoya - Makhayo Construction & Supplies	77,805,705
Mhlungwini - Tauries Garden 500 CC	90,237,726
Mnyangweni - Setheo Engineering	58,825,000
	304,259,191

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
-----------------	------	------

29. Contingencies

The following contingent liabilities were identified at year end:

Pension fund contributions

The Municipality has been in negotiations with South African Local Government Bargaining Council (SALGBC) regarding the salary and wages collective agreement reached in 2012. Clause 9.3 of this agreement deals with the pension fund contributions as from 01 July 2012. The Unions interpretation of the abovementioned clause claim, is that all employees who received employer contribution of less than 18% prior to 1 July 2012 must receive an employer contribution of 18% as from 1 July 2012. A total of 68.65% of employees in the province are to be affected by this proposal. As a result of this proposal, the Municipality is potentially liable to make retrospective contributions to the employees pension funds to the value of R830 029.96.

Pending legal case against the municipality in respect of former Municipal Manager

The former Municipal Manager's appointment was not valid and as a result, his actions whilst he performed this function were void. During this period, he employed 25 employees. Once an administrator was appointed to the municipality, the salaries of these employees were ceased as they had been employed by a person without the proper authority to do so. The employment of this former Municipal Manager and the 25 staff he employed were declared null and void by the court. These employees have as a result taken the municipality to court over the salaries which they believed they were entitled to receive. The case has been heard in the Pietermaritzburg High Court and the municipality is awaiting judgement in this case. If the Municipality is unsuccessful, it will be liable to pay the salaries of the 25 employees for the three months: April to June 2013. Based on the basic salaries of these employees prior to the termination of their employment, the possible financial exposure that the Municipality faces is approximately R615 626.

30. Fruitless and wasteful expenditure

Penalties - VAT201	2,990	-
Penalties - EMP201	64,247	-
Interest paid	5,230	8,815
	72,467	8,815

Penalties VAT201

During the year, SARS re-assessed a previous VAT 201 return and discovered that they had over-refunded the municipality, as a result a penalty was levied.

Penalties - EMP201

Penalties were levied by SARS due to the late submission of EMP201 returns. The reason for the late submission was due to the issues encountered by the Municipality with the SARS e-filing website.

The penalties incurred are irrecoverable. Processes have been improved to ensure that such penalties are not incurred in future.

Interest paid

Fruitless and wasteful expenditure was incurred in the form of interest paid, due to invoices for Telkom and Eskom not being settled in 30 days as required. Efforts have been made to contact the service providers in respect of late receipt of invoices for payment, however due to the nature of the services provided, full payment had to be made.

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
-----------------	------	------

31. Irregular expenditure

Irregular expenditure related to remuneration paid to M C Mkhize, N Y Nqubunga and B D Mazibuko as well as their personal assistants and bodyguards from the period of 28 June 2013 to February 2013. During this period, they were fulfilling positions that they were appointed to in terms of a decision that was declared null and void by the High Court. As a result of the High Court's ruling, the councillors who were party to the decision that was declared null and void are being held liable for the irregular expenditure.

The amount is intended to be deducted from the councillors monthly remuneration.

Irregular expenditure - current year	768,680	-
--------------------------------------	---------	---

32. Additional disclosure in terms of Municipal Finance Management Act

PAYE and UIF

Current year deductions and council portion	4,431,963	3,209,319
Amount paid - current year	(4,431,963)	(3,209,319)
	-	-

Pension and Medical Aid Deductions

Current year deductions and council portion	3,021,214	1,057,035
Amount paid - current year	(3,021,214)	(1,057,035)
	-	-

Skills Development Levy (SDL)

Current year deductions and council portion	234,694	173,446
Amount paid - current year	(234,694)	(173,446)
	-	-

Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Various items were procured during the financial year under review and process followed in procuring those goods deviated from the provisions of paragraph 12 (1)(d)(1) as stated above. The reasons for the deviations were documented and reported to the Accounting Officer which considered them and subsequently approved the deviation from the normal supply chain management regulation. From a total expenditure of R 64 381 582, deviations were R 1 818 612 being approximately 2.82% of expenditure.

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
-----------------	------	------

33. Risk management

Maximum credit risk exposure

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the municipality. The utilisation of credit limits is regularly monitored.

Financial assets exposed to credit risk at year end are noted under the respective financial assets - investments, trade and other receivables and the cash and cash equivalents notes.

These balances represent the maximum exposure to credit risk:

Cash and cash equivalents	46,085,742	31,935,057
Financial assets - Investments	-	10,000,000
Consumer debtors	4,874,075	2,764,891
	50,959,817	44,699,948

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into amounts due within the 12 months after year end:

Payables from exchange transactions	1,773,045	1,963,045
Finance lease obligation	208,889	159,248
	1,981,934	2,122,293

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At year end, financial instruments exposed to interest rate risk were as follows:

- Call deposits
- Notice deposits

Imbabazane Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
-----------------	------	------

33. Risk management (continued)

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of financial assets - investments. With all other variables held constant, the municipality's deficit for the year is affected through the impact on variable rate investments as follows:

Effect on surplus for the year

2013	1% increase	2% (decrease)
Cash and cash equivalents	458,858	(917,717)
Consumer debtors	48,741	(97,482)
	507,599	(1,015,199)
2012	2% increase	2% (decrease)
Financial assets - Investments	200,000	(200,000)
Cash and cash equivalents	638,701	(638,701)
Consumer debtors	55,298	(55,298)
	893,999	(893,999)

Appendix A

Analysis of property, plant and equipment as at 30 June 2013 Cost/Revaluation Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings												
Buildings	9,486,133	-	-	-	9,486,133	(1,926,271)	-	-	(339,144)	(72,573)	(2,337,988)	7,148,145
	<u>9,486,133</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,486,133</u>	<u>(1,926,271)</u>	<u>-</u>	<u>-</u>	<u>(339,144)</u>	<u>(72,573)</u>	<u>(2,337,988)</u>	<u>7,148,145</u>
Infrastructure												
Roads, Pavements & Bridges	31,881,188	9,393,845	-	-	41,275,033	(8,309,187)	-	-	(3,563,956)	-	(11,873,143)	29,401,890
	<u>31,881,188</u>	<u>9,393,845</u>	<u>-</u>	<u>-</u>	<u>41,275,033</u>	<u>(8,309,187)</u>	<u>-</u>	<u>-</u>	<u>(3,563,956)</u>	<u>-</u>	<u>(11,873,143)</u>	<u>29,401,890</u>
Community Assets												
Community halls	9,691,117	-	-	-	9,691,117	(1,842,076)	-	-	(324,662)	-	(2,166,738)	7,524,379
	<u>9,691,117</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,691,117</u>	<u>(1,842,076)</u>	<u>-</u>	<u>-</u>	<u>(324,662)</u>	<u>-</u>	<u>(2,166,738)</u>	<u>7,524,379</u>

Appendix A

Analysis of property, plant and equipment as at 30 June 2013 Cost/Revaluation Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Other assets												
General vehicles	2,835,978	-	-	-	2,835,978	(1,858,133)	-	-	433,144	(151,128)	(1,576,117)	1,259,861
Plant & equipment	6,333,570	35,852	-	-	6,369,422	(1,865,982)	-	-	(528,243)	(11,568)	(2,405,793)	3,963,629
Furniture & Fittings	1,341,413	201,717	-	-	1,543,130	(881,982)	-	-	(98,115)	(347)	(878,444)	564,686
Office Equipment	2,046,631	424,431	-	-	2,471,062	(1,822,722)	-	-	144,147	(65,743)	(1,544,318)	926,744
Security assets	31,877,751	127,761	-	-	32,005,512	-	-	-	(13,444)	-	(13,444)	114,317
Capital Work in progress	18,314,347	24,144,876	-	(9,393,845)	33,065,377	(486,194)	-	-	-	-	-	33,065,377
Other Assets - Leased	1,005,812	-	-	-	1,005,812	(486,194)	-	-	(28,724)	-	(515,918)	489,894
Total property plant and equipment	31,877,751	24,934,636	-	(9,393,845)	47,418,542	(6,715,013)	-	-	(90,235)	(228,786)	(7,034,034)	40,384,508
Intangible assets												
Land and buildings	9,486,133	-	-	-	9,486,133	(1,926,271)	-	-	(339,144)	(72,573)	(2,337,988)	7,148,145
Infrastructure	31,881,188	9,393,845	-	-	41,275,033	(8,309,187)	-	-	(3,563,956)	-	(11,873,143)	29,401,890
Community Assets	9,691,117	-	-	-	9,691,117	(1,842,076)	-	-	(324,682)	-	(2,166,738)	7,524,379
Other assets	31,877,751	24,934,636	-	(9,393,845)	47,418,542	(6,715,013)	-	-	(90,235)	(228,786)	(7,034,034)	40,384,508
Total	82,936,189	34,328,481	-	(9,393,845)	107,870,825	(18,792,547)	-	-	(4,317,987)	(301,359)	(23,411,903)	84,458,922
Intangible assets												
Computers - software & programming	162,386	86,847	-	-	249,233	(84,369)	-	-	(31,909)	-	(116,278)	132,955
Total	162,386	86,847	-	-	249,233	(84,369)	-	-	(31,909)	-	(116,278)	132,955
Investment properties												
Investment property	2,401,490	-	-	-	2,401,490	(693,667)	-	-	(61,565)	-	(775,232)	1,626,258
Total	2,401,490	-	-	-	2,401,490	(693,667)	-	-	(61,565)	-	(775,232)	1,626,258
Land and buildings												
Infrastructure	9,486,133	9,393,845	-	-	18,879,978	(1,926,271)	-	-	(339,144)	(72,573)	(2,337,988)	7,148,145
Community Assets	31,881,188	-	-	-	31,881,188	(8,309,187)	-	-	(3,563,956)	-	(11,873,143)	29,401,890
Other assets	9,691,117	-	-	-	9,691,117	(1,842,076)	-	-	(324,682)	-	(2,166,738)	7,524,379
Intangible assets	31,877,751	24,934,636	-	(9,393,845)	47,418,542	(6,715,013)	-	-	(90,235)	(228,786)	(7,034,034)	40,384,508
Investment properties	162,386	86,847	-	-	249,233	(84,369)	-	-	(31,909)	-	(116,278)	132,955
Total	85,500,665	34,415,328	-	(9,393,845)	110,522,148	(19,570,583)	-	-	(4,431,471)	(301,359)	(24,303,413)	86,218,135

Appendix B IMBABAZANE MUNICIPALITY ACTUAL VERSUS BUDGET (EXPLANATION OF SIGNIFICANT VARIANCES) FOR THE YEAR ENDED 30 JUNE 2013		
	Reference	Explanation of significant variances between actual and budget information
Other revenue	B1	The actual amounts of R30 500 shown under B15 and R233 128.79 of the actual amount shown under B2 were budgeted under this line item. Other own revenue. After adjusting for these amounts, the municipality was under budget by approximately 14%. This was due to the fact that part of the gain of disposal of assets was only anticipated to be received in the 2012/13 year but was received at the end of the 2011/12 year instead as the purchaser made early payment. The actual figures recognised as other income also include VAT refunds that were recovered in the current year that relate to previously disallowed or unclaimed amounts from SARS. This account also includes the fair value adjustment that was processed to recognise assets that were donated to the municipality by the Department of Trade and Industry. These amounts were not budgeted for.
Investment revenue	B2	As previously explained, R233 128.79 of the actual amount shown here was budgeted under B2 above. After adjusting for this, the municipality is over budget as a result of investing cash resources in Investec investment accounts which earned significantly improved returns that the other investment accounts.
Property rates	B3	The variance (approximately -5%) to the budget is considered to be immaterial.
Government grants & subsidies	B4	R20 963 000 has been budgeted under B15. If this amount is taken into consideration, the variance to budget is approximately 1.2% which is considered to be an immaterial variance.
Personnel	B5	At the beginning of April 2013, 25 employees, certain HOD's and the Municipal Manager were dismissed. There was therefore a reduction in personnel costs compared to what was budgeted for as due to the reduced staff contingent for the last 3 months of the year.
Remuneration of councillors	B6	The budget was exceeded by approximately 3% which is considered to be an immaterial variance.
Depreciation and amortisation	B7	During the year, certain assets useful lives were reassessed which resulted in an adjustment to accumulated depreciation in the current year, which decreased the overall depreciation charge for the year. Furthermore, there was a delay in the completion of certain MIG projects which means that the costs are still accumulating in Work in Progress and have not begun to be depreciated during the current year.
Finance costs	B8	The excess over the budgeted finance costs is attributable to that the municipality had expected to reclassify the finance lease obligations to operating leases, however the reclassification has not been performed, hence the noted variance.
Repairs and maintenance	B9	The budget was exceeded by approximately 9% which is considered to be an immaterial variance.
Contracted services	B10	Contracted expenditure with N3 Fire that was budgeted under Disaster Funds was not spent during the year.
General expenses	B11	The budget to actual variance is approximately 7% which is considered to be an immaterial variance.
Consultant fees	B12	The VAT consultant failed to invoice the municipality for the last 2 months of the financial year which then resulted in the noted budget variance.
Audit fees	B13	The budget was exceeded by less than 1% which is considered to be an immaterial variance.

<p style="text-align: center;">Appendix B IMBABAZANE MUNICIPALITY ACTUAL VERSUS BUDGET (EXPLANATION OF SIGNIFICANT VARIANCES) FOR THE YEAR ENDED 30 JUNE 2013</p>		
	Reference	Explanation of significant variances between actual and budget information
Gain on disposal of assets	B14	Please refer to B1 above - the actual amounts are included in this line.
Transfers recognised - capital	B15	Please refer to B4 above - the actual amounts are included in this line.
Other receivables	B16	This variance is considered to be immaterial.
VAT receivable	B17	The municipality was expecting to collect all VAT refunds by year end, however a provision had not been for the final VAT return that is submitted at period end that is only paid in the following month.
Consumer debtors	B18	The municipality anticipated a higher collection rate of rates for the year than was experienced, this was mostly due to the fact that organs of state did not make their rate payments as required.
Investments	B19	Please refer to B20 - all Investments were withdrawn at period end thereby inflating the cash and cash equivalents balance.
Cash and cash equivalents	B20	Please refer to B19 - The cash balance exceeded budget as a result of the transfer of all investments into the main account as well as the underspend on certain grants.
Investment property	B21	This variance is considered to be immaterial.
Property, plant and equipment	B22	This variance is approximately 1.3% and is considered to be immaterial.
Intangible assets	B23	The excess over the budgeted intangible assets amount is due to additional software purchases, largely for Munsoft and related applications which were not anticipated.
Finance lease obligation	B24	The budget was prepared on the assumption that the finance leases were going to be transferred to operating leases, however this was not the case as the leases have remained classified as finance leases.
Trade and other payables	B25	The budget included certain amounts which could not be raised as actual accruals at year end as the services had not yet been rendered.
Unspent conditional grants	B26	The municipality managed to spend portions of the Housing and FMG unspent grant opening balances during the year thereby decreasing the Unspent grant liability at year end by more than expected.
Provisions	B27	The reduction in staff members explained in B5 above has also resulted in below budgeted increases in the leave pay and bonus provisions.
Accumulated surplus	B28	Accumulated Surplus has increased as a result of the current year's surplus which is due to the underspend.
Net cash flows from operating activities	B29	The budget was not exceeded by approximately 5% and is considered to be not material.
Net cash flows from investing activities	B30	The variance is attributed to the transfer of investment to cash and cash equivalents at year end.
Net cash flows from financing activities	B31	Please refer to B24

Appendix C							
IMBABAZANE MUNICIPALITY							
GRANT RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE 2013							
MONTH	Payments/Receipts	Municipal infrastructure grant (MIG)	Municipal systems improvement grant (MSIG)	Financial management grant (FMG)	Housing grant	Sports and recreation grant	Library grant
Jul-12	Payments	-1,223,564.92	-	-33,755.82	-	-	-48,411.60
	Receipts	7,044,000.00	-	1,500,000.00	-	-	-
Aug-12	Payments	-1,669,525.35	-	-61,534.22	-	-	-52,274.36
	Receipts	-	800,000.00	-	-	-	245,000.00
Sep-12	Payments	-4,190,401.98	-	-236,805.16	-	-	-3,524.89
	Receipts	-	-	-	-	150,000.00	-
Oct-12	Payments	-3,693,552.92	-	-46,799.07	-523,477.91	-	-97,911.08
	Receipts	-	-	-	-	-	-
Nov-12	Payments	-3,380,639.03	-	-54,120.05	-156,750.00	-550.00	-9,300.00
	Receipts	7,950,000.00	-	-	-	-	-
Dec-12	Payments	-3,236,895.64	-34,200.00	-67,656.45	-	-	-5,850.00
	Receipts	-	-	-	-	-	-
Jan-13	Payments	-731,089.57	-25,650.00	-78,341.32	-	-	-
	Receipts	-	-	-	-	-	-
Feb-13	Payments	-1,471,737.45	-	-65,684.51	-1,047,311.95	-45,078.77	-95,000.00
	Receipts	-	-	-	-	-	-
Mar-13	Payments	-	0	-9,245.06	-181,944.00	-21,970.00	-17,728.07
	Receipts	-	-	-	-	-	85,000.00
Apr-13	Payments	-1,090,620.00	-	-7,769.33	-	-16,389.00	-
	Receipts	5,969,000.00	-	-	-	-	-
May-13	Payments	-	-297,057.56	-27,978.07	-	-9,962.00	-
	Receipts	-	-	-	-	-	-
Jun-13	Payments	-408,932.09	-361,097.12	-139,062.63	-	-52,462.00	-
	Receipts	-	-	-	-	-	-
Total Payments		-21,096,958.95	-718,004.68	-828,751.69	-1,909,483.86	-146,411.77	-330,000.00
Total Receipts		20,963,000.00	800,000.00	1,500,000.00	-	150,000.00	330,000.00